MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019 / 2020

BFN3104- CORPORATE FINANCIAL STRATEGIES

(Final Exam)

9 March 2020
(9.00am-11.00am)
(2 hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **4** pages with **5** questions.
2. Answer **ALL** questions and the distribution of the marks for each question is given.
3. Please write all your answers in the **Answer Book** provided.

Question 1 (20 marks)

Wasif Berhad (a company registered in Malaysia) had reported RM50 million in Earnings Before Interest and Tax. The company's has RM140 million in operating current assets and RM40 million in operating current liabilities. In addition, the company's net depreciation expense is RM10 million, interest expense of RM10 million and RM150 million in net non current assets.

The company's after tax cost of capital is 12%. Corporate Tax is 25%.

a. What is shareholders' value? (2 marks)

b. Compute Wasif Berhad financial indicators below:

i. The company's net income for the year? (2 marks)

ii. The company's net cash flow? (2 marks)

iii. The company's net operating profit after taxes (NOPAT)? (2 marks)

iv. The company's net operating working capital and total net operating capital for the current? (4 marks)

v. If total net operating capital in the previous year was RM190 million, what was the company's free cash flow (FCF) for the year? (3 marks)

vi. What was the company's Economic Value Added (EVA)? (3 marks)

vii. Does Wasif Berhad creates shareholders' value? (2 marks)

Question 2 (20 marks)

a. Define "corporate financial distress." (2 marks)

b. What are some useful indicators of impending corporate financial distress? (6 marks)

c. MyGiant Berhad is in financial distress. The Board of Directors plan to reorganize the company. The following future cash flows are expected:

Year	1	2	3	4	5
Cash Flow (RM) Million	80	120	130	150	170

If the liquidation value is RM570 million and the opportunity cost of funds is 8%, should MyGiant Berhad liquidate or reorganize? (8 marks)

d. What is global Financial Risk Management? (4 marks)

Continued...

Question 3 (20 marks)

a. Discuss factors to be considered in international capital budgeting decision.

(6 marks)

b. You have been assigned to analyse a project with the following expected cash flows:

Time (t)	0	1	2	3	4	5	6
Cash flow (RM million)	–200	40	50	50	60	60	30

If the cost of capital for this project is 8 percent, what is the net present value? Should the project be undertaken? (7 marks)

c. You are evaluating a proposed expansion project and you determine that the Discounted Cash Flow (DCF-NPV) is –RM100 million. However, by investing today, you might have a future growth option to expand further but it would cost you an additional RM80 million (in today's Ringgit) to have this option. If this future opportunity occurs, you estimate the present value of this option will be RM390 million. However, there is only a 40 percent chance of this occurring.

Calculate the financial viability of this project. Advice your Managing Director.

(7 marks)

Question 4 (20 marks)

a. Explain **three** (3) pre-defense takeover (M&A) strategies. (6 marks)

b. Explain the term merger and consolidation. (3 marks)

c. Sinergi Bhd has shown interest to acquire Press Bhd. The acquisition will cost Sinergi Bhd RM150 million. Sinergi Bhd plans to sell Press Bhd at the end of 5 years. The projected incremental after-tax cash flow stream that Sinergi Bhd expects to realize from the acquisition (which reflects the anticipated operating improvements) is for years 1 through 5 as follows: RM50 million, RM50 million, RM40million, RM60 million, and RM50 million. In addition, the projected after-tax proceeds from selling Press Bhd at the end of 5 years amount to RM270 million.

i. Calculate the NPV of the acquisition, assuming a 11 percent cost of capital.

(6 marks)

ii. Should Sinergi Bhd proceed with the acquisition? (2 marks)

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d. An acquisition target currently has 20 million shares outstanding. They are trading at RM24. This gives the target a current market value of RM410 million. What is the premium paid if the target is acquired at RM31 per share? (3 marks)

Question 5 (20 marks)

a. Briefly discuss four phases of corporate life cycle (show diagram). (5 marks)

b. Discuss the corporate life cycle of a **growing firm** and its financial strategies related to financial risk, dividend, shareholders return, price earnings ratio and share price. (15 marks)

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